Ontario Hydro-Electric Inquiry Commission, 1922-1924

Miscellaneous Documents

7th Sept. 1923.

Interview with Mr. G. T. Clarkson
re
Renewal, Contingency and Sinking
Fund Reserves, etc.

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INTERVIEW WITH MR. G. T. CLARKSON RE RENEWAL, CONTINGENCY AND SINKING FUND RESERVES, ETC.

Present:

Mr. W.D.Gregory, Chairman
Mr. Lloyd Harris
Mr. J.A.Ross
Mr. R.A.Ross, Commissioners.

Mr. J.H.W. Bower, Secretary,

Mr. Brown - Price, Waterhouse & Co.
Mr. G.T. Clarkson.

MR. CLARKSON: ..... They should keep the renewal accounts on a perfectly safe basis, recognizing that if an inadequate renewal reserve were provided and if the time came when repairs were to be made and the money was not there to make the repairs, a condition would be brought about not at all provided for by the Act, while the Government security might be impaired. Consequently I always have the view that the renewals should be kept on a sound basis. What is sound and what is unsound I am not prepared to state; I am not an engineer.

THE CHAIRMAN: There might be a wide difference of opinion on it?

MR. CLARKSON: Yes. I want them to keep on the safe side, but I have always said that was an engineering matter.

Some months ago, probably six or eight months, a suggestion was made that they were going to reduce the renewal accounts and I was asked to talk to the Commission about it. I went up there and when they raised this question I said it was a matter entirely outside of my purview as to what allowance was right and what was not right; it was an engineering matter. But I thought, in view of the sittings of this Commission, it would be an unwise thing to make reductions until there had been some discussion with the engineers of the Inquiry Commission which would indicate to them whether they saw eye to eye with them. I thought as a matter of policy it was the wrong thing to do. I subsequently heard it had been discussed with Francis.

THE CHAIRMAN: He says it was just an informal discussion. Someone was passing him and made some casual remark just in an offhand way. Of course it would have been

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MR. CLARKSON: No, it would not be improper to discuss the matter with them if he had your approval.

MR. R. A. ROSS: But he hadn't.

MR. CLARKSON: That was all I heard about it, then subsequently reductions were put in force.

THE CHAIRMAN: It made a great difference in the Renewal Reserve.

MR. CLARKSON: I quite appreciate it.

THE CHAIRMAN: And it was made retroactive.

MR. CLARKSON: Certainly, that is why I say it is a vital factor. Now all I can do is in my reports to state what reductions have been made and what the effects are. I suppose it will rest with the Government to ascertain if they are correct.

COMMISSIONER HARRIS: What do you think a renewal fund should cover? In a private concern we have a renewal and maintenance fund and from that fund we take money for renewals of all kinds. Do you think a renewal fund should be such that you cannot take from it except for renewals?

MR. CLARKSON: I don't think so. You have two elements in there; you have maintenance and replacement. You can treat them in a great many ways. A great many people charge maintenance to expense and set up enough to replace the items, when they find the rate of depreciation on every item. Then where a thing has to be renewed they charge it against that fund, which I think is proper.

COMMISSIONER R. A. ROSS: I think it is a great question of words.

MR. CLARKSON: It means the same in the end as long as you deal fairly with it.

COMMISSIONER R. A. ROSS: .... All your repairs and replacements should be made out of operating account, not out of the trust fund which you put aside to make whole your capital at the end of the worn-out period. You can never figure a depreciation fund if you continue dipping into it; you can't tell where you are, and at the end of the time you may ~~ha~~ not have enough to replace the items. Where you pay this out of operating then you have your one-horse chaise and you have got then a depreciation fund which will buy you a new one. It seems to me it should be "Repairs and Replacements." A depreciation account is a trusted fund.

COMMISSIONER HARRIS: You can't draw from it. You take a plant in a private company and the Government have cer-

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tain views on this thing; depreciation on buildings may be 3%, and according to the kind of business it is they will allow you up to 10%.

THE CHAIRMAN: I think it is very largely a play on words.

MR. CLARKSON: I don't give a hoot whether it is depreciation or what it is or whether it is charged against operation; it all turns ~~out~~ on the adequacy of the amount you put aside.

COMMISSIONER R. A. ROSS: The only thing is you can't figure it. You take your different items; you take poles for instance and you say poles have a life of twenty years, then you work on that. Now if you consider that as a fund to be drawn upon as things go on then you can't tell how much you are going to have left at the end of the period, and you have, in effect, if you consider that merely as a replacement fund, nothing to replace the whole thing which is eventually worn out and could be fixed up.

MR. CLARKSON: If you repair these things from time to time they are never worn out.

COMMISSIONER R. A. ROSS: Oh, yes it is; you have your one-horse chaise over again.

MR. CLARKSON: You take your pole account--it is very heavy, and light in others.

COMMISSIONER R. A. ROSS: I took the wrong thing.

THE CHAIRMAN: You repair a pair of boots many times, but the time comes when they can no longer be repaired.

COMMISSIONER R. A. ROSS: Wouldn't it be a trust fund until they accumulated the amount sufficient to replace it in a 25% condition,-whatever you decide?

MR. CLARKSON: We never fixed an amount. My idea was to go ahead and pile up a fund good and sufficient and then we could sit down and discuss it.

THE CHAIRMAN: You have not reached that stage?

MR. CLARKSON: No. It is a question whether you get a fund of 25% of the moneys set aside if that is enough to renew and maintain.

COMMISSIONER HARRIS: In the States they have the Public Utilities Commissions appointed by State Governments, under which come all the steam railways, radial railways, etc. They lay down certain rules as to what you shall do in the way of providing these funds for maintenance, renewals, etc. They have forced them to put as high as about 20% aside.

MR. CLARKSON: And wrecked nearly all the railways. However, as far as this thing is concerned, my idea was in

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connection with their renewal reserve that they ought to have an ample reserve, and the idea I had was that it should accumulate and get up so far before they started these theories. I thought that the security of the Government rested upon that plant being kept in a naturally operating condition. The minute it fell below that and the moment it could not supply power, the security was gone.

COMMISSIONER HARRIS: They are not providing sufficient with this cut.

MR. CLARKSON: But you are not saying that before the cut they were not providing sufficient?

COMMISSIONER HARRIS: I don't think they were. I think they should go into it heavier at the start.

MR. CLARKSON: Well, they have some pretty substantial funds in some of those cases.

COMMISSIONER HARRIS: In the Dominion Power & Transmission Company the people that have handled all our bonds came to them several years ago, and as a protection to the bondholders they suggested they should set aside 20% of all gross earnings. That was an arbitrary matter. Personally I have never seen a private corporation set aside as much as this concern is setting aside. The directors rather took exception to it at the time but I thought it was a proper thing to do.

COMMISSIONER R. A. ROSS: Had you sinking funds?

COMMISSIONER HARRIS: Yes.

COMMISSIONER R. A. ROSS: I always feel that repairs and replacements, whatever they may be for, should be covered by contingencies which would be paid out of the yearly repair account, and then the set thing to be figured as the trust fund to replace the old ramshackle chaise, and then your contingencies as a sort of insurance fund to cover fire, etc. Build that up to the maximum and when an accident occurs as at the Ontario Power Company, you would pay for that temporarily out of the contingent fund and not out of your repairs.

MR. CLARKSON: Well in the case of an accident you cannot replace it out of those contingencies.

Some time ago they moved some poles along the Welland Canal at a cost of $12,000, and we found this added to their capital account. I said "Nothing doing, this is not an acquisition to capital, it is an unexpected contingency; what you have got to do is to provide an amount that will protect you against things of that kind." Well, they put up so much; there is no special way of doing it, it is on an arbitrary basis, and the expectation at the time was that that would pile up a fund of one-half million dollars in the course of eight or ten years, but almost as soon as they had it up to $150,000 they got a crack at Dundas when lightning struck. That cost $100,000 and wiped out their fund.

THE CHAIRMAN: It was a mighty good thing to have a fund to wipe out.

MR. CLARKSON: Yes. Up to that time I thought it was a little novel. I had not seen corporations doing that. They just take it out of their general reserves.

COMMISSIONER R. A. ROSS: All those funds come out of operating. There are no good years and bad years with the Hydro.

COMMISSIONER HARRIS: They have no surplus profits to draw on to make up these funds.

COMMISSIONER J. A. ROSS: Whatever the rates may it is "cost".

THE CHAIRMAN: There are no inside reserves.

MR. CLARKSON: No.

COMMISSIONER J. A. ROSS: It can't be used for contingencies?

MR. BOWER: I don't think Mr. Clarkson regards it that way. Every fund is a trust fund but it can't be used for replacements from year to year.

MR. CLARKSON: Yes, that is what it is for.

COMMISSIONER R. A. ROSS: But you can't apply any if you are taking uncertain amounts out of your accounts from year to year. You don't know how to figure it. The way I look at it is this: The small repairs naturally are charged as they occur and are paid for out of that year's revenues, and the repairs--an armature burns out, etc., nominal upkeep--those two are paid out of yearly operating costs as encountered, and at the end of thirty years (whatever time you may consider) your plant will be worn out. You want something to make good your capital, whatever you put away, and have that at the end of the time. Those things are perfectly figurable. The first two are paid out as they occur and the depreciation is at the end of the line. For unexpected contingencies there should be a good contingency fund. And there are all your dubious funds instead of having your contingencies dubious and your renewal reserves dubious.

MR. CLARKSON: The life of the component parts of that system is not the same. Poles have a life of 12 years and your rate is computed on that basis. If within 12 years' time a pole plays out they have to renew it and there is the money there to do it. You have 50 years on buildings.

MR. MATTHEWS: It was a nasty, hard fought to have a hard to wipe out.

MR. SHERTON: Yes. Do to that line I thought it was a little novel. I had not been particularly familiar with that case in not at trial matters reviewed.

CHAIRMAN: Q. A. Yes. Let there double some out of operation. There are no just years and but years a/b the 3rd

CHAIRMANCE CARTER: Do you have to origin provide to them or is into to these trade.

CHAIRMANCE A. A. ARD: Whatever the rules may it be "over".

DR. MATTHEWS: There are no labels remover.

MR. SHERTON: Yes.

CHAIRMANCE A. A. ARD: It may! be used for vin-dication?

MR. SHERTON: I don't think so. Because recently it has my. There was a trial that but it wasn't to what for re-flavoured long year to year.

MR. SLAGLE: Yes, that is what it is, is it.

CHAIRMANCE A. A. ARD: Yes you were saying so if it is also trying material matters at or very material from year to year. You don't have how to change it. Why may I ask or is it only to small remove material is are change or any matter and are just for at that point? Or, mental change. Why the people—to material matter and. Or, mental change. Are are old of years matter? Or, is to change or consulting, or the and of it? Or, years (a) (b) (c) are not consulting? Some year will be both and. In such conditions to make that year is trial, matters in or and, and have that or the and of the time. These things are matter? Or (b) (c) that are old not as their cover and the introducing to or the and of the time. The changing conditions they should be a good, without year. And there are all year. Unless that instead or trial, more conditions (b) are and year remove matters trying.

MR. CHAIRMAN: The time of the management with of that change is not the year. Where there a time of it change year and is changed or that into. It which Q. Mr. time. A year year to year. It was more c. year. It in the under time to it. The trial by year or conditions.

COMMISSIONER R. A. ROSS: You get that out of your replacement fund?

MR. CLARKSON: Every element in that system is taken care of in that way.

COMMISSIONER R. A. ROSS: I throw everything like that to replacement.

MR. BOWER: Wouldn't that be a trust fund until that 12 years would expire?

MR. CLARKSON: It is there for the purpose.

MR. BOWER: But supposing the pole were out in 6 years?

MR. CLARKSON: You take it out of that fund and it means that your reserve is inadequate, but you can't show that that is the case.

THE CHAIRMAN: Renewal Reserve would differ very largely in different plants.

MR. CLARKSON: Absolutely. You take the Wasdells system where the poles run through a swampy section. The poles might wear out in 6 to 8 years, and in different section they might last for 20 years.

COMMISSIONER R. A. ROSS: Of course you are putting it up to the engineers.

MR. CLARKSON: Absolutely.

COMMISSIONER R. A. ROSS: The engineer does not know anything more than you.

MR. CLARKSON: When we started these rates we gathered the experience of different corporations. You look at our 1917 report and you will find that they are fixed on the experience of a great many operating firms, companies in the United States. There is a schedule about 3 pages long showing every element in a plant. That is the basis we started on, that is the basis we have been working on. It is up to the Hydro to justify any changes in that .....

Suppose we have $20,000 in poles and the life of those poles is estimated 12 years. We put aside in that fund enough money so that at the end of 12 years we will have $20,000 to put new poles there. Now, if those poles at that time cost $30,000 and we use the $20,000, there is $10,000 additional to capital. If they only cost them $10,000 the fund is $10,000 too high and you are on the safe side, but I confess I don't see anything wrong with it.

COMMISSIONER R. A. ROSS: It is all right but you can't figure it. ....

CHAIRMAN R. A. KOHN: Can you look out of your replacement book?

MR. MARTIN: Every element is just crushed in below zero of in low 40s.

CHAIRMAN R. A. KOHN: I know everything like that is replacement.

MR. SMITH: Maybe's what is a issue that will that is there would exists?

MR. CHAIRMAN: It is down for the moment.

MR. STONE: Are anything in pile were out in 6 years?

MR. CHAIRMAN: Can say it out of that too and it seems that your reserve is inadequate, but you can't show that that is the case.

MR. CHAIRMAN: Normal Reserve would differ very large- ly in different plants.

MR. CHAIRMAN: Not here the specific system where the pelts are flowing a tempo basis. The pelts right? Your are in a 6 years, not in different during that short last for 20 years.

CHAIRMAN R. A. KOHN: Of course you are getting it or the reserve.

MR. CHAIRMAN: Generally.

CHAIRMAN R. A. KOHN: The difference does not come surprisingly near from you.

MR. CHAIRMAN: Now in different times pelts on minerals the operations of different overburdens. You that at for 10? Really you will that that they are from by the water lower it a great deal during drive. Dumping in the bottom right. There is a difference month a month from month every element in a place. That is the basis on elevated we. That is the basis on been been was on. It is up to the plans to justify the change in 10? .....

Anyone on here 20,000 in pelts and the life of these pelts is estimated 15 years. Do you realize in that that great amount of 10? or 15? and 15 years we will have 20,000 in pre- sent pelts there. Yes. 15 years pelts of that size. Should we run the 20,000. There is 20 additional to be put. 15 for your 20? 20,000 the line is 20? for the 20? and you are on the well side, but I wonder I don't see anything wrong with it.

CHAIRMAN R. A. KOHN: It is all right but you can's figure it. ....

COMMISSIONER R. A. ROSS: Contingency fund should be an insurance thing for the whole system so that with a condition arising on the work it is just like fire insurance where the customers are scattered all over the country.

MR. CLARKSON: This would be entirely outside the Act.

THE CHAIRMAN: But how does that impress you in regard to having a general contingency fund and supposing the Act were changed to make it so?

MR. CLARKSON: I think it would be very nice but I think that the municipalities would resent it.

COMMISSIONER R. A. ROSS: They would have to put away less money and they would have less money standing idle--co-insurance.

COMMISSIONER J. A. ROSS: It is like blanket insurance.

MR. CLARKSON: I don't care what you do as long as you get in the realm of safety. How would you work it, on a horsepower basis?

THE CHAIRMAN: How would you work it, Mr. Ross?

COMMISSIONER R. A. ROSS: I should think the contingencies should be on a valuation basis instead of on a horsepower basis because it bears no relation to horsepower but to the amount of plant you have insured, which is practically what it is.

MR. CLARKSON: A horsepower basis was settled upon as the most equitable basis of apportioning the cost among the municipalities and we don't think it is unfair.

COMMISSIONER R. A. ROSS: I don't think it is as logical as on properties.

MR. CLARKSON: Then you would have to apportion them on $100,000,000 and each year. You have to make so many calculations that if you increase the number you will get one year's report two years after the year is ended.

COMMISSIONER R. A. ROSS: Risks are different; the trouble would be in the apportionment. Couldn't that be put into overhead account along with head office salaries just as fire insurance is put into overhead charges and are apportioned in a certain way.

COMMISSIONER J. A. ROSS: What would be your measure?

MR. CLARKSON: That would go back to a horsepower basis.

COMMISSIONER J. A. ROSS: Why couldn't you put it on the dollar basis, on the cost of power?

MR. CLARKSON: It would mean that the fellow who pays the most for power pays the highest price for contingencies. It would be unfair. Personally I don't care at all as long as you get it on an equitable basis. The main thing is simplicity and is the fund adequate. There was no fund to go on prior to our setting this up and there never will be except their own, and after in view of what has happened in the last few years of operating you think it should be increased, why say so.

COMMISSIONER J. A. ROSS: There is no simpler way than to build it up on a plant valuation.

MR. CLARKSON: Then take Chippawa where the plant is enormous and where for 90% of the plant you are not going to have any contingencies. You never have any contingencies on the canal.

COMMISSIONER J. A. ROSS: You might shake it down.

COMMISSIONER R. A. ROSS: A horsepower basis is the simplest.

COMMISSIONER HARRIS: I would say so.

COMMISSIONER J. A. ROSS: It would be right if you made your allowances right for the plants.

MR. CLARKSON: Then you would have to make adjustments. I think, Mr. Ross, if you came down to it the horsepower basis would be the simplest. There was no experience to start with. The rate has not been adequate up to this time on account of what has happened, but in the next ten years it may be superabundant. We set out to build up a contingent fund of one-half million dollars on the Niagara System and expected to get it inside ten or twelve years but the mortality ran against us.

MR. BROWN: I notice on some of the little systems you are charging $1.00 a horsepower. The only question I would raise about this, was it on a sinking fund basis?

MR. CLARKSON: Where you have lives of 100 years, during the first 40 years the fund grows very slowly and the last sixty years it grows rapidly.

THE CHAIRMAN: Do you think it would be better for the Commission to defer the time for reduction?

MR. CLARKSON: Yes, I can reiterate to you, and I think Sir Adam will tell you he is complaining about our setting exorbitant renewal rates. My desire was to be safe when I really didn't care if they had too much, both from the standpoint of the system itself and from the standpoint of the Government. I wanted to get this heavy fund in there to protect them and also for a possibility of the change in the art, which I think is a serious thing.

THE CHAIRMAN: What would you think of providing a sinking fund for all their fire insurance?

MR. CLARKSON: You mean carrying their fire insurance themselves?

THE CHAIRMAN: Yes, by the Commission as a whole.

MR. CLARKSON: I would not give an answer to that until I had gone over their figures.

THE CHAIRMAN: Of course the losses were heavy in Chippawa.

MR. CLARKSON: Well, before one could answer that question you would have to go through their accounts and find the extent of the losses.

COMMISSIONER R. A. ROSS: The premiums they paid would not begin to pay the losses at Chippawa, but it would seem to me that is not an ordinary insurance risk. The insurance we are talking about is on all power stations, substations, etc. where accidents that happen are suicidal. They occur in generators; the fire is entirely internal, and I never could get insurance against that. Why shouldn't they carry that in a contingency fund as an extraordinary thing that may happen. For construction purposes they could charge it to capital.

THE CHAIRMAN: It does go into capital.

MR. CLARKSON: It all comes down to this: If they had suffered small-er losses than the premiums paid why should they not carry their insurance, and if they had suffered greater losses than the premiums paid why should they carry it.

COMMISSIONER R. A. ROSS: It looks to me as though it ought to be put in that contingency, which is an unknown thing, and lump everything in that line in one fund.

THE CHAIRMAN: What do you think about the practicability of a pre-audit of Hydro accounts?

MR. CLARKSON: No, sir.

THE CHAIRMAN: Why not?

MR. CLARKSON: Suppose you put a man in there as pre-auditor.....

Q. What is a pre-auditor?

MR. CLARKSON: You can't pay a check until it is passed, just like we have in the Parliament Buildings.

COMMISSIONER J. A. ROSS: We are talking about an audit made before the check is passed but after the expenditure has been authorized--in between those two things.

MR. CLARKSON: It is perfectly feasible in Government accounts, but I think for this reason, suppose you put a man in there--this thing has been considered quite seriously...

THE CHAIRMAN: There is a distinction between a pre-auditor and a comptroller ?

MR. CLARKSON: It is intended to be the same thing. Brown, supposing you were comptroller, or pre-auditor there and an expenditure was incurred, Beck or Gaby went out and incurred a bill for something and they brought the account to you and said we want a check for same, and you say, well, this thing has not been properly authorized, I will not do it. You know what would happen. They would pay that check whether there is a pre-audit or not.

There has been no difficulty up there in connection with their accounts except where they have gone to work and incurred liabilities for radials, and after having incurred the liabilities they bring the check forward and ask to have the debt paid. Well I don't see how you are going to cover the situation with a pre-auditor.

THE CHAIRMAN: If there was a pre-auditor they might not incur those obligations.

MR. BROWN: It would have the effect of bringing it to the attention of the Government.

MR. CLARKSON: What I mean is the horse is gone and the door is shut before the check comes up for signature.

THE CHAIRMAN: Why would it be more difficult in the Hydro than in the Government?

MR. CLARKSON: The Government is entirely different. One is a commercial undertaking and the other is Governmental undertaking.

THE CHAIRMAN: You think the pre-audit would not work?

MR. CLARKSON: I turned the whole thing over and considered it, and in the amendment it was provided that the Government should appoint a comptroller, the intention being that he should sign all checks and the suggestion was made that

MR. CLAGETT: Suppose you return to take up pre-
mailer....

Q. What is a pre-mailer?

MR. CLAGETT: You mean by a mail unit it is meant,
just like we have in the Department Publicity.

CONSULTANT: A. Yes. We are talking about an audit
plan before the mailing is mailed but after the preliminary be-
tween contractors--in between those two things.

MR. CLAGETT: Q. Is it relatively feasible to investigate
examine, can I think for the first reason, suppose you put a box in
circulation which has been verified quite properly...

MR. CLAGETT: There is a distinction between a pre-
mailer and a respondent.

MR. CLAGETT: Q. Is that--that is in the same ship.
Suppose, suppose you have respondent, or pre-mailer
there is no circumstance the inverse, that is to say what if
and involved a bit the preliminary that should be sent
to you and with no such a chance for more, and you only, with
this view, the so have personal responsibility. I will ask a
it. The law that would govern. That would be that that
another claim is a pre-mail or not.

There has been a difference in trying to reconcile
with that suggestion except that that one is that the
inverse liability for radiation, and that further involved
the liability that going the other forward and are in here
the last mail. Well I don't see how this is going to
the situation with a pre-mailer.

MR. CLAGETT: Q. Have you a pre-mailer that exist
are that some obligations.

MR. CLAGETT: Q. I would have the client to consider it
to the original a of the government.

MR. CLAGETT: Q. What I have in the terms is this and the
that is what takes the cover down up for examples.

MR. CLAGETT: The point is the more difficult in the
there than in the government.

MR. CLAGETT: The statement is entirely different.
One is a commercial enterprise and the other is governmental
enterprise.

MR. CLAGETT: You take the pre-mails would not every

MR. CLAGETT: I mean the whole thing over and
[illegible] is not in the government in the material that the

I should be made the comptroller. There was a free-for-all row and next Session it was amended to say the Commission could appoint the comptroller and that took the sting out of it and it was considered infeasible.

THE CHAIRMAN: In some of the large concerns is there a pre-audit?

MR. CLARKSON: Yes, in railways for instance. There is this difference, if Sir Henry Thornton said, "We will pay this" and it came up to the comptroller, he would pass that check or lose his job. That is the situation under the present Act.

COMMISSIONER J. A. ROSS: Who could you get for the office? You would have to get a man with immense knowledge to rule on whether an expenditure was right or wrong.

MR. CLARKSON: There has been no trouble about their accounts except in one or two directions; where they have paid money on these radials is one thing, and there were some other payments. The Chairman and others have made those payments knowing they have not authority to make them, and if you had a comptroller, or pre-auditor, and he was asked to sign the checks and refused, he would lose his job. If he was the appointee of the Government it would produce a very serious situation. The Government appoints the Commission in which it has not sufficient confidence and trust to allow them to deal with the moneys put in their hands as a commission. The easiest way about this whole thing would be if the Government objected to these payments they could dismiss the Commission. They have the whole thing in their hands.

COMMISSIONER R. A. ROSS: There is a situation developing which ought to cover that point all around. In looking through the Government accounts from the Treasury Department I find that they are not in touch with the situation--atleast that is what I think. If they had appointed some man to look after their financing--not a member of the Government, not a civil servant responsible to the Government or the Premier, if you like--who would be their financial adviser and who would pass on all loans and have before him always the appropriations to different departments of the Government, and among others he would have the Hydro appropriations just as though they were a department of the Government, and then he would have that whole thing under his hand. He would be in touch with the situation without signing the checks.

MR. CLARKSON: The old Government was in touch. We arranged so that notice of every appropriation for every piece of work that was going on, a statement should be given to the Government at the end of each month showing the amount

of money drawn and how much was paid and how much was in the hands of the Hydro; what the requirements were for the next month, and it went to Peter Smith. What good was it? You are raising the question I took up with them. I said, you haven't anybody in this building who knows anything about Hydro. Some of the questions you ask--I can hardly understand them--You ought to have somebody with his hands on this thing and when any requests come up for payments to be made he knows what the situation is and he can tell you, but it will take a man the whole time to do that.

COMMISSIONER R. A. ROSS: Don't you think the man looking after the finances of the Government could handle that as a side line?

MR. CLARKSON: I had a little broader idea than that. For instance legislation is asked for at the end of each year and that legislation comes on my table and they would ask me what is the reason for it, how does it affect us. I should not have to do that; somebody ought to know. Of course you have an element up there, Sir Adam is in the Cabinet and it is to be presumed he is in touch with the Premier and that he will keep the Premier seized with the situation.

COMMISSIONER R. A. ROSS: He will keep the Premier seized with what he wants the Premier to be seized of, you can bet on that.

MR. CLARKSON: If you put somebody in there who is going to be a busybody it will make trouble.

THE CHAIRMAN: Itmight be worse than it is now.

MR. CLARKSON: Coming back to the start,- it is to be assumed that when a Government appoints a Commission the Commission will fulfil its duties to the satisfaction of the Government and keep it in touch and inform it of these things. All these intermediate steps are nothing but pin pricks; that is the basis.

COMMISSIONER J. A. ROSS: You are trying to plaster up a concrete structure?

MR. CLARKSON: If your Commission makes up its mind to go the wrong way you can't put in any safeguard that will stop it.

COMMISSIONER R. A. ROSS: And yet if the Commission had acted strictly legally in everything it would not have got anywhere.

MR. CLARKSON: Yes, it would not have got anywhere.

COMMISSIONER J. A. ROSS: You are discussing a comptroller for the future rather than the present. If you have a man in your employ, your treasurer, and he is given to sidestepping this way and that, all the checks you put on whim will not make him straight; they will help to make him straight but he will find an opportunity to have his own way sooner or later.

MR. CLARKSON: What have you got to complain about the operations in the Hydro excepting these expenditures on Radial Railways and one or two other things?

COMMISSIONER J. A. ROSS: There is a big lack of co-operation.

MR. CLARKSON: That is a matter of personal equation. You would not surely recommend to the Government that they should discharge Beck?

COMMISSIONER R. A. ROSS: It seems to me it would be more difficult if you got a bunch that will co-operate with Governments of all parties.

MR. CLARKSON: They are a good decent bunch; their accounts are in pretty good shape and the breaches of trust in there have been almost negligible. They are a good bunch.

COMMISSIONER J. A. ROSS: How do you reconcile the Toronto-Port Credit situation with that? Would you ever trust a man like that in the same situation after that?

MR. CLARKSON: I don't think you should ask me a question like that. There is still another element in that and that is Hearst wrote a letter practically authorizing certain expenditures which were not legal according to statute. There is something to say because of that.

THE CHAIRMAN: You mean that letter of September, 1914?

MR. CLARKSON: Yes, I do.

THE CHAIRMAN: Hearst and nobody else is above the law.

MR. CLARKSON: Yes, but if the Premier of the Province told you to do something, within reason, you would take that as the authority of the Government.

THE CHAIRMAN: Yes.

MR. CLARKSON: Coming back to the pre-audit--I don't approve of it.

THE CHAIRMAN: How about segregating the borrowings for Hydro and treating it as part of the public debt but quite distinct from the ordinary provincial borrowings?

MR. BURTON: Yes, it would not have got approved.

CONSTABLE C. A. (CON): You have discussion a very-
similar for the Justice Minister than the Premier. If you go to
see in the Minister, then Premier, and he do alone in a side-
everyday this may not that, but the Premier you not to main
all and make his attention; then will bring in more his attention
and he will give as importantly to have his the you may answer to
main.

MR. CLARKE: Don't have you not to consider when the
proposition in the Crown Prosecutor Trial Prosecutions or Public
Attorney and one of the other Minister

CONSTABLE C. A. (CON): There is a big job of re-
sponsibility.

MR. CLARKE: Yes, he is a major of indoors, anything.
You would not usually consider in the government that they
should discuss Bill?

CONSTABLE C. A. (CON): It seems to me it would be
more difficult if you put a board that will in-charge with
investigate of all prisons.

MR. CLARKE: They are a just Labour Party; Bill
measures are in really long hours and the problems of issue to
there have been Labour Party in.

CONSTABLE C. A. (CON): How do you reconcile the
Trades-and Overall Minister with Bill? Bill; you ever that
a man like that in his area viewing other Bill?

MR. CLARKE: I don't. Bring you about not to a question
like that. There is this Minister always in that and that is
Labour people a Labour Constitution experience certain strength
Labour which was not just something to stand. There is com-
ment to my knowing of that.

THE CHAIRMAN: You mean that labour of Government, Bill?

MR. CLARKE: Yes. I do.

THE CHAIRMAN: Bill not nobody else is above the law.

MR. CLARKE: Yes, but if the Premier of the Province
has you to a meeting, which report, you would take high
of the authority of the Government.

THE CHAIRMAN: Yes.

MR. CLARKE: Going back to the pre-nuptials--I don't
approve of it.

THE CHAIRMAN: Has about separating the Government the
Crown and thought it as part of the public that not with sep-

MR. CLARKSON: I don't think there would be any benefit. Suppose you went and borrowed $5,000,000 on Hydro account, and you make loans on Hydro bonds and they call for $500,000 now, $1,000,000 next month, so much the month after, and the result is that before you get through you will have interest charges there.....

THE CHAIRMAN: That is what happens now. Peter Smith told me he had a million dollars that they had borrowed, which they had to pay interest on and on which they got bank interest for themselves and the Hydro.

MR. CLARKSON: I think it is better to put it into the common pot and give it to each Department as required.

THE CHAIRMAN: Sometimes when you borrow money you can have it paid over in instalments to you by the lenders. I have known that to be done. I don't suppose it is common practice.

MR. CLARKSON: Where will you benefit by it?

THE CHAIRMAN: You would not have your balance in the bank; you would draw it from your bondholders as you needed and pay interest from the time you got it.

COMMISSIONER R. A. ROSS: The fault I have--I think would be that you would know your interest charges at the end of the year.

THE CHAIRMAN: There is this consideration in keeping these distinct. During the last election campaign it was stated that the Drury Government had increased the debt by so much whereas a very large proportion was for the Hydro and with which the Government had practically nothing to do, and if you had these segregated the public might not be under that misapprehension.

MR. CLARKSON: I think the Government accounts show distinctly how much is paid to the Hydro.

THE CHAIRMAN: I don't see why they should not at the beginning of the year get an idea of the proportions in which they want their funds. Surely it is worth while saving that.

MR. CLARKSON: We thought this whole thing out and we thought it would be foolish.

What happens was this, they were charging them 4% and McGarry found it was costing him more than 4%. He had that section passed allowing the Government to determine any additional amount they should pay and he said it had been agreed that the Government and the Hydro would settle the amount of

interest to be paid at the end of the year, and if there was any dispute I was to be called in as arbitrator. I never was called in. After they went out in 1919 these heavy borrowings commenced. There was a rising rate of interest and when the turn took place in the interest I spoke to Smith and told him that I was troubled about this question and I asked with his permission to go into the Department and go over those accounts and I was put off. I asked him six months later and nothing happened. I went to Mr. Drury and told him and asked his permission but nothing happened. That is just the situation. I blame the Government. The thing is just about the same as the deposit of sinking funds. They are bound by the Act to put them into bonds and they have not done it and the municipalities have lost anything from one to two per cent. and will continue to lose it for 20 years.

The Hydro paid into the Government $250,000 when they could go out and buy bonds bearing 6% interest--20 or30-year Government bonds which would continue bearing interest. Instead the Government keeps it in cash and allows them 4%. The whole thing can be dealt with if you get somebody who knows the situation.

THE CHAIRMAN: You think the present system of operation is all right?

MR. CLARKSON: Yes.

COMMISSIONER J. A. ROSS: It would be pretty hard to get that man.

MR. CLARKSON: We will get it straight if you give us the opportunity.

So far as interest or any of those things were concerned, I always thought it would be well to allow us the opportunity to check them. That is why the Act was put as it is.

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